January 31, 2006

Alan C. Lloyd, Ph.D.
California Environmental Protection Agency
P.O. Box 2815
Sacramento, CA 95812-2815

Dear Secretary Lloyd:

The agricultural organizations listed below are submitting the following comments regarding the California Climate Action Team Report to the Governor and Legislature (December 8, 2005) and supporting documents. The agricultural community has been providing Governor Schwarzenegger's Administration our perspective on Global Climate Change since being appointed in July 2004 to the California Energy Commission Climate Change Advisory Committee. It was our understanding the Advisory Committee was to advise the Administration on appropriate policy actions regarding a comprehensive climate change strategy for California. While working with the CEC on this mission, the June 1, 2005 Executive Order (#S-3-05) was announced and efforts of the CEC Advisory Committee were rapidly concluded.

We have monitored the Climate Action Team's (CAT) efforts and understand the magnitude of what was asked of the agencies in developing, implementing and reporting on the progress of a global warming emission reduction program by January 2006. There has been inadequate time to review and analyze the CAT's report and macroeconomic assessment with the agricultural community. We will provide the feedback and comments we have been able to accrue to this point given the January 31, 2006 deadline. We would ask that you and your staff remain open to further dialogue and input as we continue to analyze the impacts to California agriculture of what CAT has proposed.

Action is required by the Governor and the Legislature on four overarching recommendations identified in the report. It is stated that this package is intended to encourage investment in technologies that reduce emissions, create jobs, and encourage economic growth. Legislation is being developed for introduction no later than February 24, 2006 that will include all or some of these recommendations. Of these four recommendations, the two that would have the most direct impact on the state's agricultural systems include 1) mandatory climate change emissions reporting and 2) a public goods charge for transportation.

Mandatory Greenhouse Gas (GHG) Emissions Reporting/Cap and Trade
It is our understanding from the report that the intent of mandatory emissions reporting is to collect GHG emissions data, starting with data from the largest sources of emissions. This will allow the Governor's targets to be translated into a statewide emission cap for the 2010 and 2020 timeframes and lays the foundation for a cap and trade program. The sector-based emissions cap would capture up to 30 percent of the state's climate change emissions by focusing on five key industries: electric power (including emission from imported electricity); oil refining; oil and gas extractions; landfills; and cement

production. The agricultural community utilizes the products and services of each of these sectors and would be impacted by increased costs if they have a mandatory emissions cap and must acquire offsets.

More than 90% of the electricity used by agricultural customers in California is used to pump water with on-farm electric use typically ranging from 5-15% of total production costs depending on which of the 350 commodities is being produced. Based on statistics provided by the California Farm Bureau Federation, they conservatively estimate that their 34,000 farmer and rancher members are currently paying in excess of $850 M for electrical service provided solely by privately owned companies. These costs would not include fuel costs that would also be impacted by a cap on oil refining and extraction. Higher electricity rates would result in a reduction in profits, as California farmers, ranchers, food and fiber processors and wineries would be competing in a global market with others not faced with GHG mandates.

While we understand that power generation-based cap-and-trade programs have been implemented over broad regions such as the eastern United States, numerous studies cite why this would not be a good approach for California. The CEC included in the docket for the 2005 Integrated Energy Policy Report a report they commissioned from the Center for Clean Air Policy (CAP) that included the following conclusions:

- Very significant levels of imported power are used to meet California demand, including a large amount from coal. These emissions associated with imported power would be missed under a generation-based cap.

- Programs that cover smaller regional areas and where neighboring states are exempt have a high risk for emissions leakage. This leakage could erode the emissions benefits of a generation-based trading program.

- There is a more limited (and more costly) set of potential mitigation activities from electric generating sources in California.

For these reasons, the CAP report states, "a generation-based cap applied only to California units may result in little overall emissions benefit, and could potentially cause an increase in GHG emissions due to leakage."

This is an extremely complex venture and we sincerely ask that you take the time to fully understand all the economic and environmental ramifications before recommending any further policy actions. We do not believe a mandatory California-only cap and trade program would be effective and would instead work against the significant efforts now being implemented to improve the state's air quality.

Public Goods Charge for Transportation
It is clearly in the nation's interest to investigate strategies to reduce dependence on foreign oil and find ways to diversify our fuel portfolio. We believe there needs to be a more thorough analysis by a broader group of scientists, economists, public policy, consumer and interest groups than has currently reviewed this recommendation. While the agricultural community is interested in exploring the increased use of biofuels, it can only occur if it is an economically and environmentally sound strategy.

The CAT report states that if a public goods charge on fuel was instituted that equals the current public goods charge on electricity it would be the equivalent of 2.57 cents/gallon of gasoline or diesel at the wholesale level. While there have been public policy discussions in the last several years about this concept in relation to the Carl Moyer program, it was always clear from the business community that such a tax would have to include a 2/3 vote of the Legislature, other regulatory relief and a cap of 1 cent or less. Until such details are reviewed and included, we do not support a public goods charge on transportation.

The two remaining overarching CAT recommendations include a coordinated investment strategy for the state funding programs and provisions for early action credit to California businesses that support the transition to federal and international emission reduction schemes. Both of these ideas seem to be predicated on providing incentives for industry. While details must be developed and reviewed before we could provide further comment, efforts to maintain California's lead in technology development and leverage the talent at California's universities to develop new technologies is clearly a worthy goal.

Strategies Needed to Meet California's GHG Reduction Targets
The strategies listed in Table 5-2 that could directly impact agriculture include manure management, alternative fuels, conservation tillage and enteric fermentation. A number of forestry management and conservation strategies are also included.

<u>Manure Management and Enteric Fermentation</u>
Of these strategies, manure management was cited specifically in the economic assessment presentation of the CAT workshop on January 23, 2006 as being one of the eight strategies that had been more thoroughly reviewed than other strategies. Cal-EPA staff informed us that the inputs that went into the manure management economic assessment came from Agency Work Plan (ARB 2-8). The Work Plan includes no numbers and concludes that the cost to the regulated entity of implementing the manure management strategy had not been determined. Two dairy economists (one from industry and one from UCD) with extensive experience in manure management were asked to review the Table 5-2 Manure Management economic assessment chart. They could not explain how the assumptions were reached given the table as presented.

There is extensive research and review of manure management strategies currently underway by the state to meet mid 2006 legislative deadlines. No conclusive strategy has been determined and further research is planned beyond the 2006 deadline. Throughout these discussions there have been differences of opinion on economic assumptions made about the annualized benefit of digesters. Local air district staff assumes 100% digester capacity and $0.1163/ kWh while the industry has experienced 86% capacity and $0.04 per kWh on generated power sent to the grid. The annual savings experienced by the farmers is half of what the district projects will occur.

As the ARB Work plan states:

> "This strategy relies on the use of anaerobic digesters as the primary means to reduce GHG emissions. However, as discussed above there are outstanding issues associated with widespread implementation of digesters for manure management. There are several working groups addressing feasibility, cost and other issues and the results of these efforts will be critical inputs to the implementation strategy. The only digesters installed to date have been heavily subsidized by the CEC and the federal government and have been put in place for energy production, not as air pollution control technologies."

While the agricultural community is willing to consider digester and enteric fermentation strategies if they are technologically and economically feasible, much more extensive research and review must be completed before that decision can be made. Additionally, there is substantial concern that dairy digester effluent may be more difficult to manage from a water quality standpoint than standard manure management practices. It is imperative that the multi-media impacts of GHG controls on the full spectrum of dairy operations be considered.

Conservation tillage

Conservation tillage (CT) is a challenge in California due to the wide diversity of crops and climate conditions. Before CT can be a viable GHG reduction strategy the potential must be verified through extensive research directly applied to California conditions thus the reductions remain to be determined. The agricultural community is very interested in CT and is involved in policy and research at the state and federal levels to explore the potential.

Many agricultural representatives are working with the United States Department of Agriculture (USDA) to develop an economically viable, voluntary proposal for buying and selling greenhouse gas and carbon credits in the 2007 Farm Bill. First, the infrastructure must be developed to support the voluntary greenhouse gas accounting system followed by providing incentives through existing conservation and energy authorities, such as the Conservation Security Program and the Environmental Quality Incentives Program, to address traditional soil and water quality concerns, as well as emerging concerns in air quality. The 2007 Farm Bill presents USDA with an opportunity to expand on existing greenhouse gas efforts and to spur development of carbon markets to reduce greenhouse gas emissions, either through new initiatives or by adding new elements to existing programs.

Work is underway in California with a broad cross section of the Natural Resources Conservation Service staff, growers, scientists, agricultural and environmental organizations, and the California Climate Action Registry to find ways that the state's growers can participate in an effective CT program that would align seamlessly with any federal program.

We hope you find these comments useful. We want to discuss the CAT recommendations further with you and your staff and look forward to a productive dialogue.

Sincerely,

Agricultural Council of California
California Association of Winegrape Growers
California Bean Shippers Association
California Citrus Mutual
California Cotton Ginners Association
California Cotton Growers Association
California Farm Bureau Federation
California Grain and Feed Association
California Grape and Treefruit League
California Seed Association
California State Floral Association
California Warehouse Association
Nisei Farmers League
Pacific Egg and Poultry Association
Western Growers
Western United Dairymen
Wine Institute

cc: Honorable Arnold Schwarzenegger, Governor